

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2006**

**CITY OF MOORHEAD,
MINNESOTA**

CITY OF MOORHEAD, MINNESOTA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* AND THE *MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE*

The Honorable Mayor and City Council
City of Moorhead
Moorhead, Minnesota

We have audited the financial statements of the **City of Moorhead, Minnesota**, as of and for the year ended December 31, 2006, and have issued our report thereon dated May 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes, Section 6.65.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will be not be prevented or detected by the entity's internal control. We considered deficiencies 06-1, 06-2 and 06-3 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **City of Moorhead, Minnesota's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and Tax Increment Financing. Our study included all of the listed categories. The results of our tests disclosed no instances of noncompliance that are required to be reported under the *Minnesota Legal Compliance Audit Guide for Local Government*.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, City Council, management, and state of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
May 29, 2007



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council
City of Moorhead
Moorhead, Minnesota

Compliance

We have audited the compliance of the **City of Moorhead, Minnesota**, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

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Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Moorhead, Minnesota** as of and for the year ended December 31, 2006, and have issued our report thereon dated May 29, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
May 29, 2007

CITY OF MOORHEAD
MOORHEAD, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006

Federal Grantor/ Pass-Through Grantor/Program Title	Agency or Pass Through Number	Federal CFDA Number	Expenditures
<i>DEPARTMENT OF COMMERCE</i>			
Direct Programs:			
EDA Public Works Assistance		11.300	\$ 424,552
<i>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</i>			
Direct Programs:			
Community Development Block Grant		14.218	571,593
<i>DEPARTMENT OF JUSTICE</i>			
Direct Programs:			
BJA Armored Vests		16.607	3,112
Police Overtime		16.595	10,634
Cops in Schools		16.710	69,252
Edward Byrne Justice Admin (JAG)		16.738	3,513
Passed through Minnesota Department of Public Safety:			
Drug Task Force		16.738	75,000
Alcohol Compliance		16.727	3,550
Total Department of Justice			165,061
<i>DEPARTMENT OF TRANSPORTATION</i>			
Direct Programs:			
Federal Transportation Assistance			
Operating		20.507	355,913
Capital		20.507	1,127,689
Planning		20.507	14,291
Total CFDA #20.507			1,497,893
Passed through the State of Minnesota:			
MNDOT Formula Grant, Non-Urbanized Area (RTAP)	T79-4100	20.509	242
Highway Planning & Construction		20.205	3,726,477

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Page 2

Federal Grantor/ Pass-Through Grantor/Program Title	Agency or Pass Through Number	Federal CFDA Number	Expenditures
Safe Communities	97-0118	20.600	4,444
Heat Project		20.600	5,168
Safe and Sober		20.600	9,613
Nonmetro Seat Belt Enforcement		20.600	7,500
Total CFDA #20.600			26,725
Total Department of Transportation			5,251,337
<i>DEPARTMENT OF ENERGY</i>			
Direct Programs:			
Renewable Energy Production Incentives		81.502	\$ 22,849
<i>ENVIRONMENTAL PROTECTION AGENCY</i>			
Direct Programs:			
MSUM Waterline		66.202	482,100
Brownfields Assessment & Cleanup		66.818	31,060
Passed through the State of Minnesota			
Water Pollution Control Revolving Fund		66.458	346,840
Total Environmental Protection Agency			860,000
<i>DEPARTMENT OF FEDERAL EMERGENCY MANAGEMENT AGENCY</i>			
Passed through the State of Minnesota			
Federal Disaster DR 1370		97.036	54,898
Federal Disaster DR 1622	027-43864-00	97.036	34,867
Federal Disaster DR 1648	027-43864-00	97.036	127,818
Katrina EMAC Grant		97.036	27,058
Total Emergency Management Agency			244,641
<i>DEPARTMENT OF HOMELAND SECURITY</i>			
Passed through the State of Minnesota			
2005 State Homeland Security Grant Program	2005-SHSP-00524	97.067	5,066
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 7,545,099

**CITY OF MOORHEAD
MOORHEAD, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2006**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting.

NOTE 2 – AGENCY OR PASS-THROUGH NUMBER

The only programs without agency or pass-through numbers are programs where the federal funds are direct therefore agency and pass-through numbers are not required.

CITY OF MOORHEAD
MOORHEAD, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of the **City of Moorhead**.
2. Three significant deficiencies were disclosed during the audit of the financial statements reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and *Minnesota Legal Compliance Guide for Local Government*.
3. No instances of noncompliance material to the financial statements of the **City of Moorhead** were disclosed during the audit.
4. No deficiencies were reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Controls over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for the **City of Moorhead** expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for the **City of Moorhead** are reported in Part C of this schedule.
7. The programs tested as major programs were Community Development Block Grant, CFDA #14.218, Federal Transit Authority Grant, CFDA #20.507, and Congressionally Mandated Projects – MSUM Waterline, CFDA #66.202.
8. The threshold for distinguishing a Type A program was \$300,000.
9. The **City of Moorhead** was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Significant Deficiency

06-1 Preparation of the Notes to the Financial Statements – Moorhead Public Service and Moorhead Public Housing Agency

Condition: Moorhead Public Service and Moorhead Public Housing Agency do not have an internal control system designed to provide for the preparation of the notes to the financial statements for the electric, water, and broadband funds and the component unit fund being audited. As auditors, we were requested to draft the notes to the financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for required disclosures in the notes to the financial statements.

Effect: This control deficiency could result in a lack of required disclosures in the notes to the financial statements that would not be prevented or detected.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management's Response: Management of Moorhead Public Service and Moorhead Public Housing Agency will assess the risk and make timely recommendations to the Commission's on a method to handle the deficiency.

06-1 Component Unit Disclosures in the Notes to the Financial Statements

Condition: The information in the notes to the financial statements do not distinguish between the primary government and the discretely presented component unit, as required by GASB Statement No. 14.

Criteria: A good system of internal accounting control contemplates an adequate system for required disclosures in the notes to the financial statements.

Effect: This control deficiency could result in a lack of required disclosures in the notes to the financial statements that would not be prevented or detected.

Recommendation: The notes are and integral part of the financial statements and they should distinguish between information pertaining to the primary government and that of its discretely presented component unit.

Management's Response: The City will make an effort to improve the disclosures of the component unit information in the notes to the financial statements in future years.

06-3 Adjusting Journal Entries

Condition: During the course of our engagement, we proposed adjusting journal entries to accounts payable that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a misstatement of the City's financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries significant to the financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Response: The City will make an effort to review and reconcile all accounts payable in future years.

C. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS AUDIT – NONE